

OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. G 03-85
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
COMMENCEMENT BAY LIFE)	AND ORDER ADOPTING REPORT
INSURANCE COMPANY)	OF
A Domestic Insurer.)	FINANCIAL EXAMINATION

BACKGROUND

An examination of the financial condition of **COMMENCEMENT BAY LIFE INSURANCE COMPANY** (the Company) as of December 31, 2002, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on July 29, 2003. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 5 through 19 of the report.

COMMENCEMENT BAY LIFE INSURANCE COMPANY
Order Adopting Examination Report
September 19, 2003

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **COMMENCEMENT BAY LIFE INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 6-9.

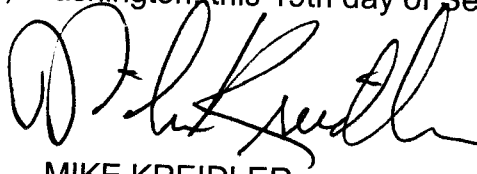
1. The Company is ordered to revise its investment transactions procedures so that all future investment transactions are approved in a timely fashion by the CBL Board of Directors at the next regular meeting following the transaction in compliance with RCW 48.13.340. Instruction 1, Examination Report, page 6.
2. The Company is ordered to maintain a written record of all investment transactions approved by the appropriate officer or the chairman of the investment committee in compliance with RCW 48.13.350. Instruction 2, Examination Report, page 6.
3. The Company is ordered to submit for approval to the Washington State Insurance Commissioner's Office a current cost allocation service agreement with Regence BlueShield in compliance with RCW 48.31B.030(1)(b)(iv) and RCW 48.31B.030(a)(i), (ii) and (iii), recognizing an equitable cost sharing formula for distributing costs in all operating scenarios. Instruction 3, Examination Report, page 7.
4. Pursuant to WAC 284-07-380(2)(a)(ii), the Company is ordered to have all consulting actuaries approved by its Board of Directors. Further, the Company must ensure that in-house actuaries meet the qualifications specified in WAC 284-05-060. Instruction 4, Examination Report, page 7.
5. The Company is ordered to have five board members at all times who are United States citizens, of which two-thirds are residents of Washington State in compliance with RCW 48.06.200(2). Instruction 5, Examination Report, page 7.

6. The Company is ordered to reevaluate its investment processes to incorporate sufficient internal controls by enhancing documentation, expanding the approval process, performing sample checks of investment computations accuracy and restricting internal and external authorization powers. Comments and Recommendations 1, Examination Report, page 8.
7. The Company is ordered to revise its custodial agreements in compliance with the NAIC Financial Condition Examiners Handbook and ensure that the agreements include the following:
 - a. State that certificated securities of the insurer shall be held separate from all other securities or in fungible bulk.
 - b. State that all securities held in fungible bulk shall be separately identified on the custodian's books as being owned by the insurer.
 - c. State that registered custodial securities shall be registered in the name of the company or its nominee, the custodian or its nominee, or a clearing corporation or its nominee.
 - d. Include a provision that requires that the assets of the account are withdrawable upon demand.
 - e. Require that all transfers be confirmed.
 - f. Require a written agreement requiring that if the custodian gains entry into a clearing corporation through an agent, the agent should be subject to the same liability for loss of the securities as the custodian.
 - g. Require the custodian accept responsibility for the negligence of persons it may appoint to meet its obligations under the agreement.
 - h. Require the custodian to notify the commissioner within 3 days if a custodial account is terminated or 100% of the account assets are withdrawn.
 - i. Require the custodian to forward to the Company internal control reports from The Clearing Corporation, The Federal Reserve or its outside auditors.
 - j. Require the custodian to secure and maintain insurance protection for custodial assets.
 - k. State that registered custodial securities shall be registered in the name of the company or its nominee, the custodian or its nominee, or the clearing corporation or its nominee.

Comments and Recommendations 2, Examination Report, page 9.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 19th day of September, 2003.

A handwritten signature in black ink, appearing to read "Mike Kreidler", written in a cursive style.

MIKE KREIDLER
Insurance Commissioner



Commencement Bay Life Insurance Company

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August 13, 2003

RECEIVED
AUG 15 2003

INSURANCE COMMISSIONER
COMPANY SUPERVISION

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
P.O. Box 40255
Olympia, WA 98504-0255

RE: Examination Report of Commencement Bay Life Insurance Company
As of December 31, 2002

Dear Mr. Odiorne:

Thank you for the opportunity to view the preliminary draft report of the above referenced examination. We also appreciate the opportunity to comment on the material presented in the report.

We felt the examination process was a positive experience due to the professionalism of the OIC staff, as well as an opportunity to identify areas that we could strengthen.

Following are our comments in the same order as that given in the draft report.

Investment Transactions: We will revise our procedures so that all future investment transactions will be approved in a timely fashion by the CBL Board of Directors as instructed.

Record of Investments: We will revise our procedures so that a written record is maintained showing that all investment transactions have been approved by the appropriate officer or the chairman of the investment committee.

Intercompany Cost Allocation Agreement: We agree that an updated cost sharing agreement that reflects the current operating environment is needed. We will submit an equitable cost sharing formula that meets the requirements of the referenced RCW to your office for approval within 45 days.

Actuarial Issues: We will ensure that all consulting actuaries are formally approved by the Board of Directors. We will also ensure that meeting minutes are documented as a record of this action.

We will also comply with WAC 284-05-060 and ensure that only those individuals qualified to do so, sign as "Actuary". We have a number of such individuals on our staff.

Board of Directors: We will ensure that in the future the Board of Directors has the requisite number of members. When board members leave we will move quickly to fill the vacancy, rather than waiting for the next regular meeting as we did in 2000.

The following relates to the Comments and Recommendations section of the report:

Investment Controls: We would like to clarify the information contained in this section. Bank of America is not notified by telephone of all investment decisions by the investment manager, but rather only those transactions related to short-term and cash equivalent purchases and sales performed in the daily management of cash balances. These trades initiated over the telephone are then confirmed with documentation sent from Bank of America in the form of a faxed copy of the trade ticket. These are reviewed for accuracy and filed, providing documentation of the transaction.

We disagree with the comments concerning authorized limits. Unlimited authorization is only granted by Board action to the President and/or the Chief Financial Officer of Regence BlueShield, both board members of CBL. The Investment Manager is limited to transactions as allowed by the Investment Policy.

We believe the statement "Checks are not performed by the Company on the clerical accuracy of investment computations performed by Mellon Bank, the Company's custodian" is not correct. In fact, extensive reconciliations are performed monthly examining accruals, purchases, sales, income received and the general accuracy of the PAM system. Reconciliations are also performed to verify the accuracy of the holdings listed in Mellon's custody system and holdings listed in the PAM system. These reconciliations were not requested of our staff.

We also believe that we have sufficient control over our investment decisions, even though authority for purchases and sales are delegated to outside fund managers. In addition to a detailed investment policy that directs the fund managers in their purchases and sales, subsequent review of these transactions are done by both the Investment Manager and the Chief Financial Officer. Other metrics are also used to evaluate the performance of the fund managers and their compliance with investment policy.

Custodial Agreements: We are currently in the process of revising our custodial agreements to comply with the NAIC Financial Condition Examiner's Handbook. We thank you for the detailed list of requirements included in the report, which will aid us in ensuring full compliance.

Affiliated Companies: We respectfully ask that you change the wording in this paragraph to correctly refer to our relationship with The Regence Group. Specifically, Regence BlueShield is not "owned" by The Regence Group, it is an affiliate of The Regence Group. We are very proud of our not-for-profit status and do not want to confuse any potential readers with the notion that we are not.

Similarly, the sentence that reads "Regence BlueShield is a non-profit, taxable Health Care Service Contractor (HCSC) and is one of four 100%-owned subsidiaries of TRG" should be changed to remove the reference to "owned". We suggest using the following wording: "The Company is a wholly-owned subsidiary of Regence BlueShield. Regence BlueShield is a non-profit, taxable Health Care Service Contractor (HCSC) and is an affiliate of The Regence Group. The Regence Group is a non-profit holding company located in Portland, Oregon, and is the sole member of Regence BlueShield, Regence BlueCross BlueShield of Oregon and Regence BlueCross BlueShield of Utah. The Regence Group also has a long-term management services agreement with Regence BlueShield of Idaho. Within the holding company system there are a total of 38 companies in related fields, including The Regence Group itself."

Officers and Employees Welfare and Pension Plans: We request that the reference to "The Regence Group" be changed to "Regence BlueShield" as it is the parent company of Commencement Bay Life and maintains the pension plan liabilities.

Once again, thank you for the opportunity to review the draft of the report and to provide our comments on it. Please let us know if you have any questions or would like to discuss our comments. We look forward to receiving the final report and to working with your office in the future.

Sincerely,



Robert S. Kuecker
President